Canada Northwest Land Limited

annual report 1978

Canada Northwest Land Limited

DIRECTORS:

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New York City, U.S.A.

H. G. Gammell
Calgary, Alberta

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Calgary, Alberta

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Calgary, Alberta

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G. G. Ross
Toronto, Ontario

R. T. Ruggles
Toronto, Ontario

Lord Shaughnessy
Calgary, Alberta

OFFICERS:

H. G. Gammell
President

J. Poscente
Executive Vice President

Lord Shaughnessy
Vice President and Secretary

R. J. Kirker
Vice President — Exploration

D. W. Hilland
Assistant Secretary

M. J. Khan
Treasurer

PRINCIPAL BANKERS:

The Royal Bank of Canada

TRANSFER AGENTS:

Canada Permanent Trust Company

AUDITORS:

Clarkson, Gordon & Co.

STOCK LISTINGS:

The Toronto Stock Exchange

SUBSIDIARIES:

Canada Northwest Oils Inc.
Canada Northwest Oil (U.K.) Limited
Canada Northwest Oils (Europe) B.V.
CNWL Oil (España) S.A.
Thor Exploration Company Ltd.
Jonica Sali S.p.A.

HEAD OFFICE:

820, 355 - 4th Avenue, S.W.
Calgary, Alberta T2P 0J1

The Annual Meeting will be held at 10:00 A.M., February 2, 1979, in the Banff Room of the Calgary Inn, Calgary, Alberta.

Highlights of Activities

		12 Months Ending September 30 1978	1977
Net Production (after Royalties)			
Oil (in barrels)	Canada & U.S.	**25,087**	28,186
	Spain	**178,785**	57,790
Gas (in Mcf.)	Canada & U.S.	**3,732,190**	2,908,522

Financial

	1978	1977
Gross Revenue (before Crown Royalties and Mineral Income Taxes)	**$11,126,987**	$6,044,024
Income from Operations	**5,108,478**	2,711,438
Net Profit	**2,704,042**	1,447,502
Working Capital	**710,342**	705,167

Land Holdings (in acres)

	1978 Gross	1978 Net	1977 Gross	1977 Net
Canada:				
Freehold titles, leases and permits	**1,095,184**	**443,031**	1,082,010	437,594
Foreign:				
U.S.A., Leases	**82,654**	**30,424**	156,942	61,656
Spain, Permits	**437,678**	**42,288**	609,395	56,064
North Sea, Licence	**25,012**	**1,750**	50,025	3,502
Italy	**111,421**	**74,613**	73,615	36,807
Australia	**4,900,000**	**1,568,000**	—	—
Coal and Geothermal permits, leases and applications	**262,253**	**67,436**	262,253	67,436
Total	**6,914,202**	**2,227,542**	2,234,240	633,059

To Our Shareholders

In the year just past, our Company established new high levels of production, income and capital expenditures. Progress was made towards the full development of the Spanish Casablanca discovery made in 1976. Due to our widespread land holdings, Canada Northwest Land was exposed to discoveries in Spain, Italy and Canada. Exploratory acreage was acquired in new areas in Canada, U.S., Australia and Italy. Planning continued on our Company's salt cavern project in southern Italy, with the first production well being spudded just after year-end.

In the coming year, capital expenditures will continue to rise as construction starts on the production platform in Spain. An improved Canadian regulatory and tax atmosphere (mainly due to action by the Provinces) has encouraged Canadian exploration and over the last two years substantial new reserves of gas and oil have been added to the country's energy picture. Such exploration success must raise questions about some of the more expensive nonconventional oil extraction schemes so widely touted in recent years as solutions to our so-called energy "problems". It certainly demonstrates once again that conventional exploration in a highly competitive atmosphere, by privately funded explorers, is the most efficient method yet devised of ensuring long term energy supply. A more negative influence on the health of the Canadian industry is the continued diversion of funds from exploration into national and provincial oil companies. The use of tax dollars by governments to buy already discovered reserves, rather than affording further incentives to explorers to look for new oil and gas, seems a shortsighted policy for a country chronically short of exploration capital.

The progress which our Company has enjoyed, and can expect to enjoy in future, is entirely due to the dedicated efforts of the employees. To them, the Board expresses its sincere appreciation.

H. G. Gammell,
President.

Drillstem testing of the Montanazo D-1 oil discovery offshore Spain on 13 October, 1978.

3

Exploration and Development

International

SPAIN
Casablanca:

The Casablanca 1-A temporary production scheme, which was designed to define reservoir parameters, produced one and one-half million barrels of oil and was suspended in June 1978, its task completed. A development plan was submitted to the Spanish government in the summer of 1978, and subsequent to the year-end the submission was approved and an exploitation licence issued to the group. The plan is to deplete the field with five wells producing through a steel jacket, bottom-supported platform. Production is expected to be close to 40,000 Bbls/Day and the oil will be taken ashore by pipeline. Construction of the platform will start in 1979 and it is hoped that it will be complete and producing late in 1981. In the interim, production will start again from Casablanca 1-A early in 1979, using a diverless wet production system tied into a floating platform owned by the group. A second well will be completed later in the year and by year-end production should be close to 15,000 Bbls/Day. Oil will flow to a tanker tied up to a single point mooring which should enable production to continue during bad weather. Both the floating platform and the production systems are essentially complete and should be ready for testing by January 1979.

Our Company holds a 15% working interest in the Casablanca permit covering a majority of the Casablanca pool. Part of the field lies under the adjoining deeper water Montanazo "A" permit to the northeast, as indicated by the Montanazo "D-1" well drilled in 1977. Our Company retains a 5% carried interest in this permit following a farmout in 1977. The farmees agreed to drill Montanazo "D-1" and to supply all funds needed for production facilities on the permit. The Spanish government oil company has the right to take up to a 40% working interest in the two Montanazo permits, depending on production levels, so our Company's interest could be further reduced to 3%.

No holes were drilled in the field during 1978.

Our Company has already spent some $15 million Canadian on this venture and could spend up to $40 million more over the next three years. Management is confident that funds will be available from Spanish cash flow and from the commercial banking system to supply these needs.

Other Drilling in Spain:

The first farmout hole on the Montanazo "C" permit — Montanazo "C-1", drilling at the time of the last Annual Report — was an oil discovery. A second farmout hole on the Montanazo "D" permit — Montanazo "D-2" — drilled during 1978 between the "C-1" discovery and the northeast edge of Casablanca, as defined by the "D-1" oil well, was also an oil discovery. These discoveries appear to be in two different features, separate and smaller than Casablanca. As mentioned above, our Company's interest in these two permits, after the farmout, is 5%, which may be reduced to 3%.

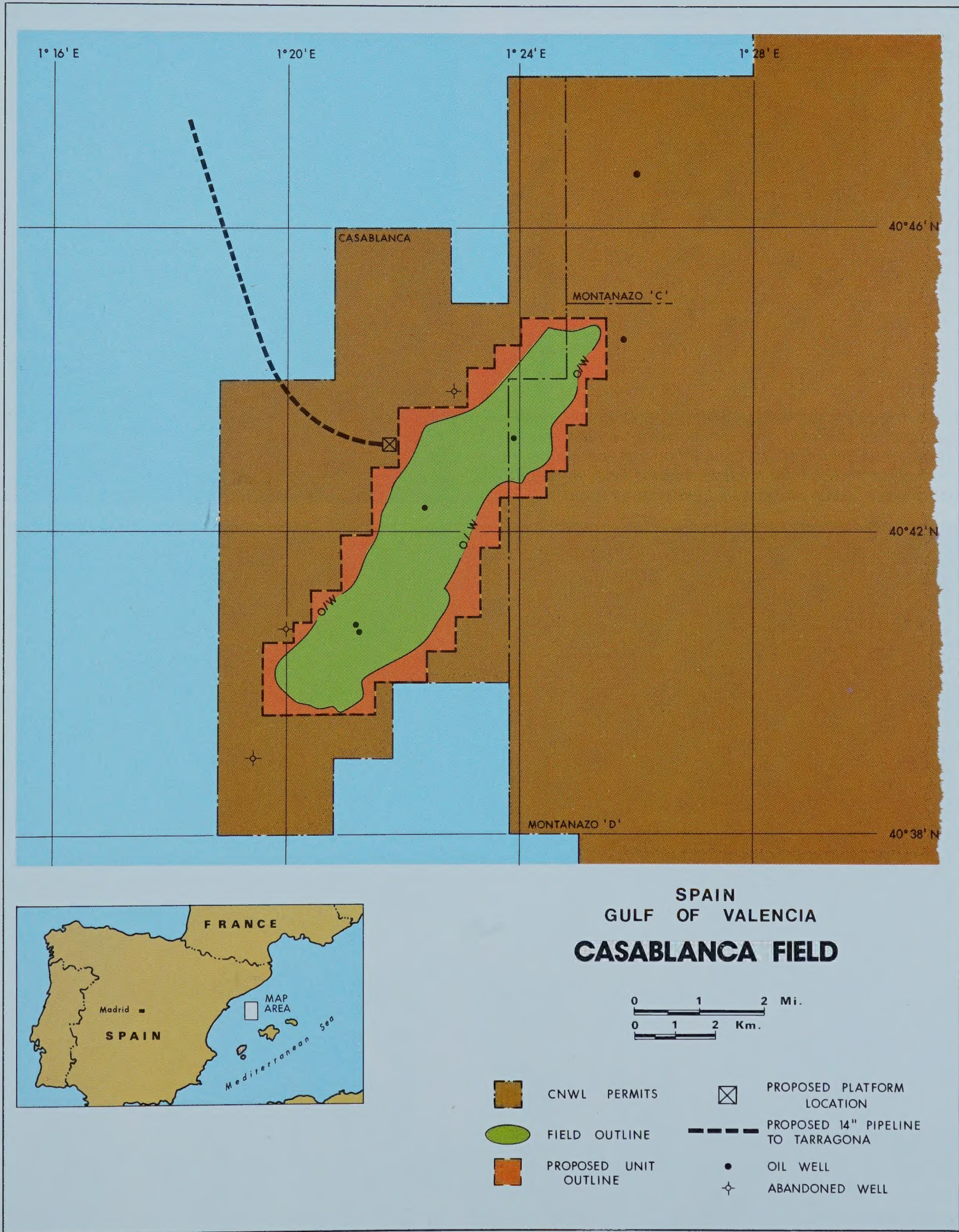
Also during the year, a second hole was drilled on the Delta permit, 43 kilometers south of Casablanca. This hole, Delta "D-2", encountered 510′ of gas pay in the Mesozoic carbonates. However, the combination of distance from shore and the large percentage of carbon dioxide with the gas means development will be indefinitely delayed.

Portions of the original five permits were relinquished during the year, as required by law. One permit, Montanazo "B", was dropped and a new one, Montanazo "A", was acquired, both northeast of Casablanca and the Montanazo "C" and "D" discoveries.

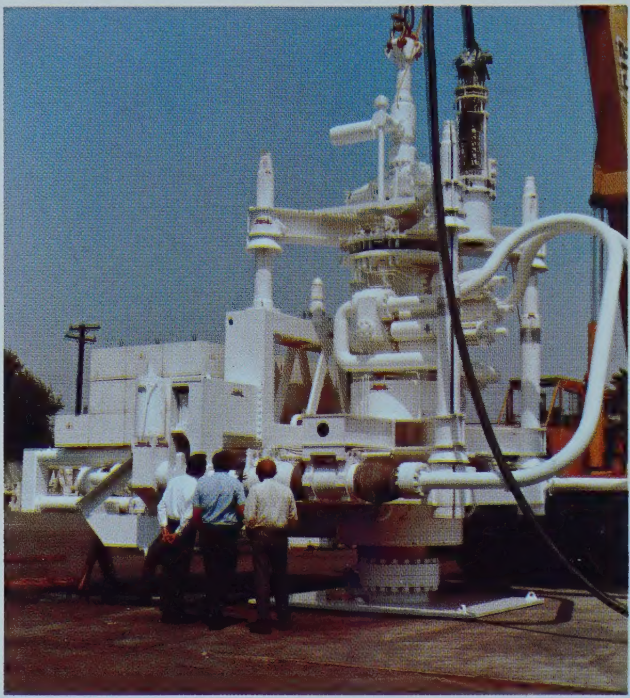
Geophysical surveys conducted during the year suggested several areas of interest for future drilling.

UNITED KINGDOM
North Sea:

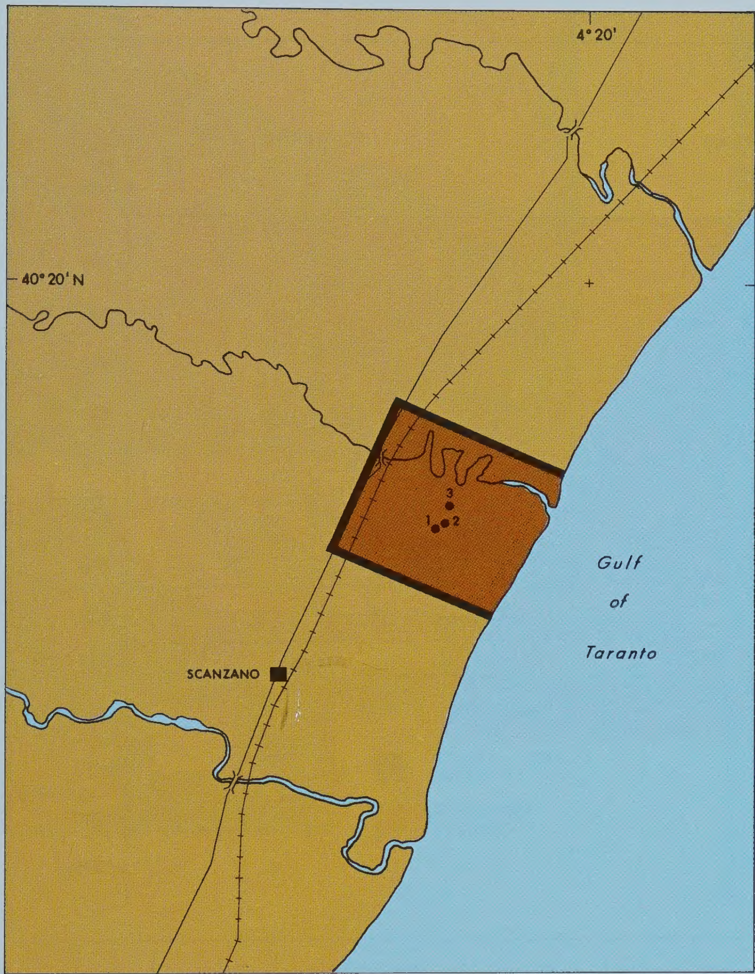
No drilling was conducted on Block 3/7 in 1978, in which our Company holds a 7% carried interest. Further evaluation of the three finds made so far on the Block will probably not take place until Ninian field development is completed, as it is likely that the facilities of that field will be used to produce the Block 3/7 reserves. As required by law, portions of the permit were relinquished. Negotiations were underway at year-end to dispose of this interest.


1° 16' E
1°20' E
1° 24' E
1° 28' E
40°46' N
40°42' N
40°38' N
CASABLANCA
MONTANAZO 'C'
MONTANAZO 'D'
O/W
O/W
O/W
FRANCE
Madrid
SPAIN
MAP AREA
Mediterranean Sea
SPAIN
GULF OF VALENCIA
CASABLANCA FIELD
0 1 2 Mi.
0 1 2 Km.
CNWL PERMITS
FIELD OUTLINE
PROPOSED UNIT OUTLINE
PROPOSED PLATFORM LOCATION
PROPOSED 14" PIPELINE TO TARRAGONA
OIL WELL
ABANDONED WELL

A diverless, wet sub-sea wellhead assembly under construction prior to installation on the Casablanca 1-A well.



The semi-submersible "Afortunada" nearing completion in a Spanish shipyard. This vessel, owned by the Casablanca group, will be used initially as a floating production platform for the Casablanca field, while a bottom-supported platform is being constructed.



SCANZANO PERMIT
ITALY

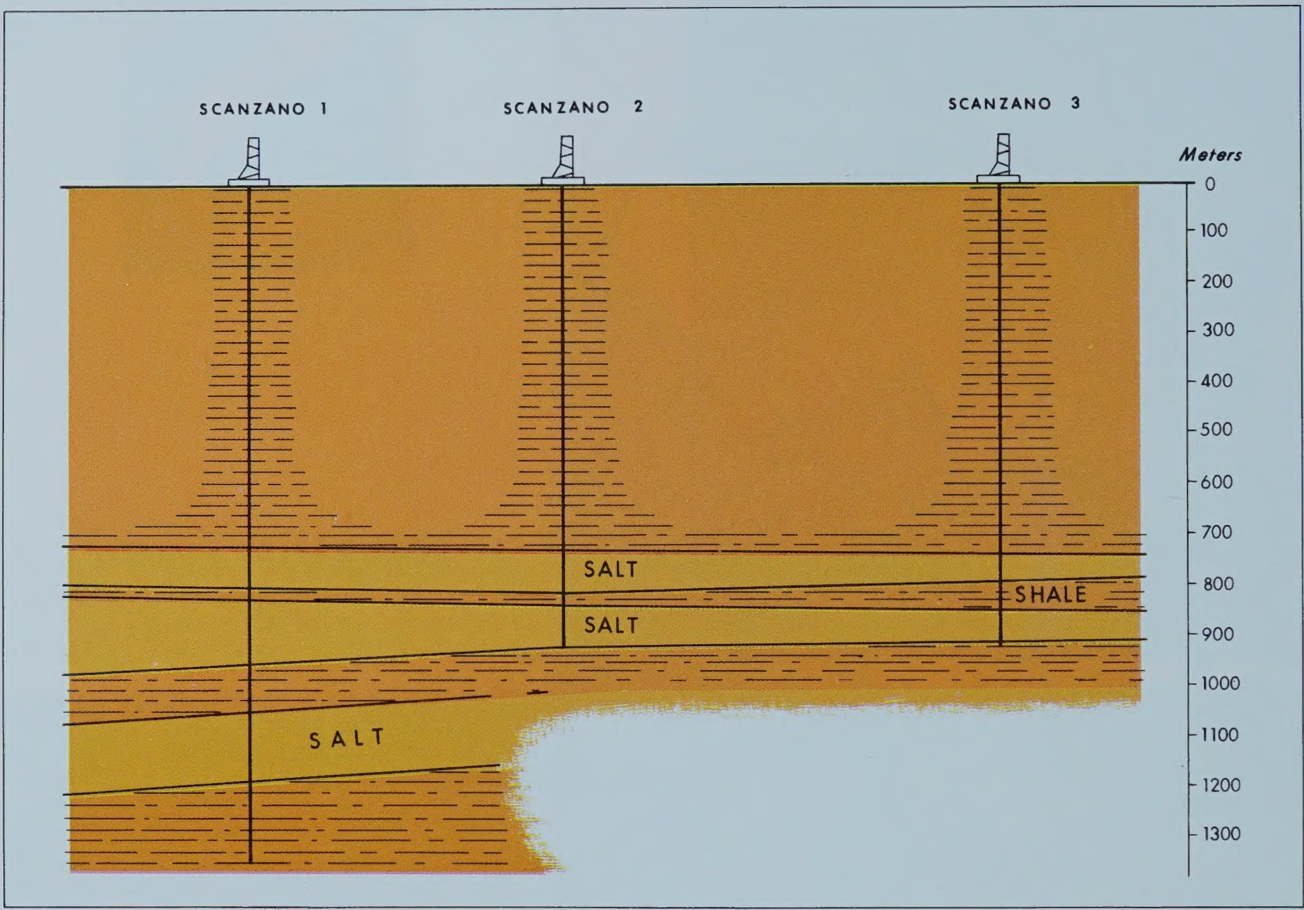
0 1 2 3 5 10 KM
0 1 2 4 6 MILES

SCANZANO PERMIT
C.N.W.L. INTEREST - 90%
SALT WELLS
HIGHWAY
RAILWAY

ITALY
Scanzano Salt Project:

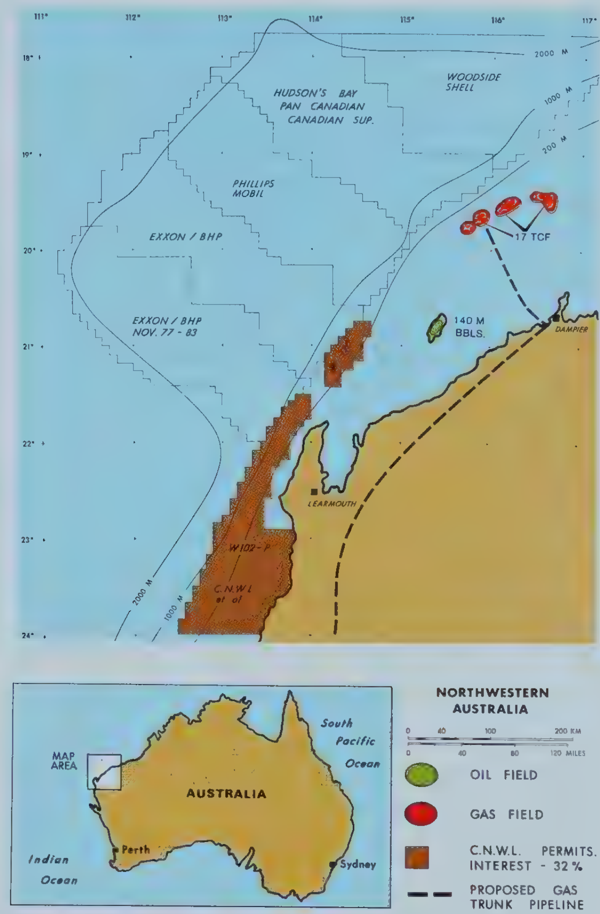
Our Company has acquired a 90% interest in 2,800 acres of land on the Gulf of Taranto in southern Italy where a hole drilled 24 years ago indicated sizeable salt deposits. The salt, which is 99.2% NaCl, occurs in two layers between 2,350′ and 3,900′. Salt of this purity has a wide market in the food and petrochemical industries. Plans are underway to produce salt by solution mining and solar evaporation. The shape and size of the caverns will be controlled so that they can be used later for liquid storage. Engineering design and feasibility studies have been completed and the first production well is drilling at the time of writing. Assuming suitable sales contracts can be finalized, and the necessary government approvals received, it is expected that construction of production facilities will start during 1979 and first salt deliveries by 1980. Initial production will be at the rate of 80,000 tonnes per

A schematic cross-section of salt deposits at Scanzano.



year, gradually increasing to 125,000 tonnes per year as demand develops. Future expansion to 250,000 tonnes per year is feasible from the present site. Drilling to date has proven reserves in the upper salt layer of 26 million tonnes over an area of 20 acres. In addition, geophysical exploration has delineated an area of 1.2 square miles of possible salt reserves.

Salt cores taken from the Scanzano property in Southern Italy.



Offshore Sicily:

The recent Mila light oil discovery, eight miles off the south coast of Sicily, lies six miles northwest of the area where Canada Northwest Land owns a 50% interest in two offshore permits comprising 77,000 acres. Two oil wells have been drilled on the Mila structure and a third hole is due to spud before the end of 1978. Our group granted an option to Montecatini Edison, the Mila discoverer, to shoot additional seismic and drill a hole to earn a 60% interest in our permits. Our Company is participating in applications for two additional permits in the area of this significant discovery.

AUSTRALIA:

During the year, two permits totalling nearly five million acres were acquired off the northwest coast of Australia. Canada Northwest Land is the operator and has a 32% interest. A geophysical survey costing a minimum of $600,000 has been committed to and will be completed in 1979. If the permits are to be extended to their full term, $41 million will have to be spent on drilling over a period of several years. Water depths range up to 3,000′. Major oil companies have taken permits northwest of our permits in water depths up to 7,000′. Drilling commitments on these total some $212 million if taken to full term. Both of our permits lie on trend and 150 kilometers southwest of the Rankin offshore gas fields. This gas is shut-in at present, awaiting the construction of pipelines to Perth, 850 miles to the South, and a gas liquefaction plant at Dampier.

United States

Oil and Gas:

During the year, 11 holes were drilled on our Company's U.S. acreage, of which five were gas wells. Since the emphasis of our land acquisition program is shifting to the northern tier States, several farmouts for drilling were made on acreage in the State of Oklahoma. Additional acreage was acquired at Ambrose in North Dakota, near the Saskatchewan border, bringing holdings there to 19,000 acres. A seismic program will be conducted on these lands in 1979.

Geothermal:

Geological field work continued during 1978 on geothermal prospects in the Mount Adams, Washington; Glass Buttes, Oregon; and the Medicine Lake Highlands, California, areas of the United States. Further geological surveys and the drilling of temperature gradient holes in the Glass Buttes area are likely components of the 1979 program. A total of 38,000 acres of geothermal leases have now been issued, with applications pending on approximately 226,000 acres. Our Company's interest is 25.7%.

Canada

During 1978, 12 holes were drilled on/or offsetting our Company's lands, resulting in ten gas wells.

Exploratory acreage was acquired in central Alberta and in northeast British Columbia. This program will continue in 1979.

It is felt that the prospect of additional export sales makes exploration in Canada attractive once more, despite the likelihood that gas and oil prices in the future will be less buoyant. However, it cannot be assumed that limitless markets for Canadian gas exist in the United States. These markets may not grow as quickly as in the past due to energy conservation measures and indications that our market share will be hotly contested by both Mexican and indigenous U.S. producers. As we have seen in Canada, improvements in regulatory and economic conditions can lead to substantial increases in exploration and, therefore, in reserves discovery. Whether the new U.S. energy bill will be encouraging to the U.S. industry or not, remains to be seen.

Reserves

The Canadian and U.S. reserves estimates presented below are estimated by management, but based on consultants' reports prepared at the end of 1977. In Spain, reserves have been estimated only for the Casablanca field and are those incorporated in the group's June 1978 application to the Spanish government for an exploitation permit. Neither probable reserves for this field nor reserves for the two Montanazo oil discoveries have yet been estimated. Reserves for the U.K. Block 3/7 are those estimated by the Company as a result of the two discoveries in the northeast portion of the permit only. No estimates have been made yet for the 3/7-3 discovery in the southern part of the block.

Gas Reserves (MMcf.)	
Net Proven Canada and U.S.	41,310
Net Probable Canada and U.S.	5,341
Total Proven and Probable Gas Reserves	46,651
Oil Reserves (barrels)	
Net Proven	
Canada and U.S.	624,000
Spain	11,484,000
U.K.	1,120,000
Net Probable	13,228,000
Canada and U.S.	307,000
U.K.	4,368,000
	4,675,000
Total Proven and Probable Oil Reserves	17,903,000

Total Canadian and U.S. proven and probable gas reserves have increased by 2% to 46.7 Bcf. after 1978 production, while Canadian and U.S. oil reserves have climbed 8% to 931,000 Bbls. Estimates for the U.K. and Spain are presented for the first time.

Investments

Panarctic Oils Ltd.:

Our Company, through a wholly owned subsidiary, owns 3.3% of this Federal government-private industry partnership for exploration in the Canadian Arctic Islands. During the year, Panarctic participated in the drilling of seven holes, all of which were dry. In addition, it successfully completed a previously drilled offshore gas well, Drake Point F-76, in 200′ of water under ice. A pipeline was laid to shore three miles away and tests of reservoir capability and construction techniques have been conducted. Panarctic, by this successful operation, has greatly advanced the technology of producing in the high Arctic. Feasibility studies for the production of NGL for east coast markets continue. Polar Gas made application during the year for a pipeline from the Arctic Islands to central Canada. Our Company did not participate in this year's Panarctic financing.

Rio Alto Exploration Ltd.:

The prime activity in 1978 was exploration of Rio Alto's Rusty Springs silver/copper/lead/zinc prospect in Central Yukon. A continuation of the previous year's core drilling and geochemistry survey programs provided more data on the extent of the areas of anomalous mineralization and of the details of the local geology. While the survey program does not appear to have revealed economic ore bodies, there is sufficient encouragement to justify continuing exploration surveys next summer.

Canada Northwest helped to finance a portion of Rio Alto's 1978 program through the purchase of 117,613 shares, for a total consideration of $225,000.

Our Company's interest in Rio Alto is 27%.

Financial

Gross revenues, after royalties, for the year ending September 30, 1978, rose by 91% to \$8,813,000. Of the \$4,193,000 gain, 60% or \$2,527,000 was due to Spanish production. Spanish income increased to \$3,189,000 while North American income (which included income from royalties and other sources), increased by 42% to \$5,625,000. In the year to come, it is hoped that income from Spanish sources will be at least as high as 1978 and possibly higher. Gas income in Canada was lower than potential due to some buyers' inability to take all the gas available. The same situation might occur again in 1979. If restricted markets continue to prevail, it is possible that prorationing of gas production could be established in Alberta to give all producers an opportunity to participate equally in markets.

Cash flow in the same period rose by 88% to \$5,108,000 or 81¢ a share. Again, 63% or \$1,133,000 of the \$1,796,000 increase in costs was due to Spanish operations. Operating costs there of \$1,672,000 represented 52% of production revenue, whereas in Canada and U.S., the percentage was 14%. The high level of Spanish operating costs is a result of the temporary nature of the production scheme rather than physical problems of the reservoir. When production starts again in 1979, more economical facilities will be in use and unit costs should be lower.

Interest was the second largest component of the increase in costs last year. During the year, debt increased from \$8,930,000 to \$15,143,000, resulting in a 291% increase in interest costs to \$524,000. Portions of the interest costs were capitalized as they related to Casablanca, a project still in the course of construction. It is anticipated that interest will rise again in 1979 as project spending continues. General and Administrative expenses rose by 22% to \$745,000 reflecting the larger scale of operations and inflation pressures. Some G & A expenses were capitalized as they relate to exploration.

Non-cash charges (including deferred taxes) rose by 90% to \$2,405,000, resulting in earnings of \$2,704,000 or 43¢ a share compared with 23¢ a share in the previous year.

Expenditures on exploration and development were \$12,260,000, up 14% from last year. Of this amount, 74% applied to the Spanish project. In 1977, 59% of the Spanish expenditures were for drilling and exploration and 37% for production and other equipment, whereas in 1978, reflecting the growing maturity of the project, the proportions shifted to 31% for drilling and exploration and 64% for equipment.

In 1979, expenditures are expected to increase to over \$20 million. Management anticipates that funds for these expenditures will be available from Spanish cash flow and from conventional banking arrangements.

Consolidated Statement of Income

For The Year Ended September 30, 1978
(with comparative figures for the year ended September 30, 1977)

	1978	1977
Revenue:		
Oil and gas sales (after royalties and mineral income taxes of $2,313,564; 1977 — $1,423,766)	**$8,132,514**	$4,091,840
Royalty income	**467,461**	424,311
Interest and other income	**213,448**	104,107
	8,813,423	4,620,258
Deduct:		
Operating expense	**2,363,544**	1,112,873
General and administrative expense	**744,733**	611,228
Interest on long term debt (Note 2)	**523,628**	133,598
Mineral taxes	**73,040**	51,121
	3,704,945	1,908,820
Income from operations before the following	**5,108,478**	2,711,438
Deduct:		
Depletion	**809,281**	508,630
Depreciation	**540,647**	275,001
	1,349,928	783,631
Income for the year before deferred income taxes	**3,758,550**	1,927,807
Deferred income taxes net of provincial government royalty tax credits of $571,104 (1977 — $394,475)	**1,054,508**	480,305
Net income for the year	**$2,704,042**	$1,447,502
Net income per share based on average shares outstanding	**43¢**	23¢

Consolidated Statement of Retained Earnings

For The Year Ended September 30, 1978
(with comparative figures for the year ended September 30, 1977)

	1978	1977
Balance at beginning of year	**$1,746,345**	$ 298,843
Net income for the year	**2,704,042**	1,447,502
Balance at end of year	**$4,450,387**	$1,746,345

See accompanying summary of accounting policies and notes to consolidated financial statements.

Consolidated Balance Sheet

September 30, 1978
(with comparative figures at September 30, 1977)

Assets

	1978	1977
Current:		
Cash	**$ 390,257**	$ 347,776
Accounts receivable — trade	**798,666**	1,489,221
Advances due from joint venture partners	**1,451,565**	
Provincial government royalty tax credits recoverable	**641,104**	428,434
Prepaid expenses and supplies	**30,852**	5,687
	3,312,444	2,271,118
Investments:		
Panarctic Oils Ltd.	**15,583,976**	15,583,976
Rio Alto Exploration Ltd. (market value — $2,177,255; 1977 — $640,410)	**468,140**	243,140
Other	**24,131**	
	16,076,247	15,827,116
Property and Equipment:		
Oil and gas properties — at cost less accumulated depletion of $2,535,840 (1977 — $1,726,559)	**17,732,241**	14,501,624
Production and other equipment — at cost less accumulated depreciation of $1,192,085 (1977 — $655,828)	**15,351,005**	8,128,125
Other	**227,708**	
	33,310,954	22,629,749
Other:		
Long term receivables and deposits (Note 2)	**441,066**	601,272
	$53,140,711	$41,329,255

See accompanying summary of accounting policies and notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	1978	1977
Current:		
Accounts payable and accrued charges	$ 2,573,548	$ 1,337,397
Long term debt due within one year (Note 1)	28,554	228,554
	2,602,102	1,565,951
Long Term Debt (Note 1)	15,143,403	8,929,500
Deferred Income Taxes	2,829,614	1,204,002
Shareholders' Equity:		
Capital (Note 2) —		
Issued — 6,280,637 common shares (1977 — 6,253,583 common shares)	28,115,205	27,883,457
Retained earnings	4,450,387	1,746,345
	32,565,592	29,629,802
	$53,140,711	$41,329,255

On behalf of the Board:

Director.

Director.

See accompanying summary of accounting policies and notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

For The Year Ended September 30, 1978
(with comparative figures for the year ended September 30, 1977)

	1978	1977
Sources of working capital:		
Operations —		
Net income for the year	**$ 2,704,042**	$ 1,447,502
Add non-cash charges:		
Depreciation and depletion	**1,349,928**	783,631
Deferred income taxes	**1,625,612**	874,780
	5,679,582	3,105,913
Sale of oil and gas properties and equipment	**228,952**	1,201,852
Long term debt	**6,242,457**	8,019,885
Issue of common shares	**231,748**	125,545
Decrease in long term receivables and deposits	**160,206**	122,373
	12,542,945	12,575,568
Disposition of working capital:		
Expenditures on oil and gas properties and equipment —		
Drilling and exploration	**3,857,584**	6,325,938
Acquisition costs and rentals	**352,206**	443,664
Production and other equipment	**7,822,587**	3,943,815
Other	**227,708**	
Repayments of long term debt	**28,554**	51,554
Purchase of shares in Rio Alto Exploration Ltd.	**225,000**	120,890
Purchase of other investments	**24,131**	
	12,537,770	10,885,861
Increase in working capital	**$ 5,175**	$ 1,689,707

See accompanying summary of accounting policies and notes to consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

Investments

The Company has a 3.3% interest in Panarctic Oils Ltd. which is carried at cost.

The Company has a 27.6% interest in Rio Alto Exploration Ltd. This investment is accounted for on the equity method. The Company's share of earnings in Rio Alto to date has not been material in amount.

Oil and gas properties

The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized and charged against income as set out below. Such costs include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration and development activities. The costs are accumulated in cost centres as follows:

(i) North America
(ii) Spain
(iii) Other — generally on a country by country basis.

Depletion is provided each year on costs accumulated in the North America and Spain cost centres in the proportion that the year's production bears to estimated proven reserves of oil and gas (the composite unit of production method).

Expenditures incurred in other areas are being deferred pending the results of exploration still in progress in each area. These costs will be depleted on the basis of reserves discovered or written off to income if exploration activities prove unsuccessful.

Production and other equipment

Oil and gas production equipment costs are depreciated on the composite unit of production basis. Other equipment is depreciated on the declining balance method at rates designed to amortize the cost of the assets over their estimated useful lives.

Translation of foreign currencies

In translating foreign currency amounts, current assets and liabilities are translated at exchange rates prevailing at the balance sheet date, property and equipment and long term debt at exchange rates in effect on the date of the transaction and revenue and expense at average rates, except depletion and depreciation, which are translated at the rates of exchange which were in effect when the respective assets were acquired.

The resulting exchange gain of $198,983 has been included in "interest and other income" in the accompanying statement of income.

Interest

The Company follows the policy of capitalizing interest on borrowings which can be specifically identified with the purchase or construction of property and equipment including the development of oil and gas properties. When the facility commences operations the subsequent interest is charged to income.

September 30, 1978

1. Long term debt

	1978	1977
Bank loan with interest at 1¼% per annum in excess of the prime bank interest rate	**$ 4,487,746**	$2,500,000
Bank loan (U.S. $9,977,608) with interest at 1¼% per annum in excess of the prevailing bank interest rate	**10,569,996**	6,515,285
9% interest bearing notes due $28,544 annually	**114,215**	142,769
	15,171,957	9,158,054
Less amounts due within one year	**28,554**	228,554
	$15,143,403	$8,929,500

Although the bank loans are evidenced by demand promissory notes, the bank has indicated that they will not require any repayment before November 1, 1979. The loans are secured by certain oil and gas properties.

If the U.S. dollar loan had been translated at the rates of exchange prevailing at September 30, 1978, the equivalent Canadian dollar amount payable would have been increased by $1,247,483 (1977 — $341,623).

Interest of $769,219 (1977 — $365,263) relating to the bank loans incurred in respect of development in Spain has been capitalized.

2. Capital

(a) Pursuant to a special resolution passed at the Annual General and Special General Meeting of Shareholders of the Company on January 27, 1978 and a Certificate of Continuance dated February 7, 1978, the Company was continued under the Canada Business Corporations Act and the Articles of Continuance reorganized its authorized capital from 8,000,000 common shares of no par value to an unlimited number of preferred shares without nominal or par value and an unlimited number of common shares. Each of the then outstanding common shares of no par value was changed into one common share.

(b) During the year the Company issued 27,054 common shares as follows:

	Shares	Amount
Under the Stock Purchase Plan	**16,816**	$161,061
For options exercised at $6.95 per share	**8,800**	61,160
For options exercised at $6.63 per share	**1,438**	9,527
	27,054	$231,748

(c) Under the terms of the Company's Stock Purchase Plan, the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to employees of shares of the Company's capital stock at prices based on the average sale price of the shares as determined on the date of the transaction. In addition, the Company has agreed to contribute a minimum of fifty percent of the cost of the shares purchased under the plan. Of the $161,061 paid for shares purchased during 1978, $88,591 was contributed by the Company.

The Company has also advanced funds to employees to allow them to purchase shares pursuant to a previous rights offering.

At September 30, 1978, $395,000 (1977 — $525,000) was receivable by the Company under the above arrangements and is included in long term receivables and deposits.

(d) 4,500 shares of the Company's common stock were reserved for options exercisable at $10.00 per share expiring on December 1, 1979.

3. Remuneration of directors and officers

During the year ended September 30, 1978, the aggregate remuneration of the ten directors in their capacity as directors was $23,601 (1977 — $20,325) and the remuneration of the six officers (1977 — five) in their capacity as officers was $262,420 (1977 — $171,100). Four of the officers are also directors.

Auditors' Report

To the Shareholders of
Canada Northwest Land Limited

We have examined the consolidated balance sheet of Canada Northwest Land Limited as at September 30, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1978 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants.

Calgary, Canada.
November 10, 1978.

Five Year Financial and Operating Summary

(in thousands)

	Years Ending September 30			Years Ending December 31	
	1978	1977	1976 9 Months	1975	1974
Income:					
Gross oil & gas sales	**$10,446**	$ 5,516	$ 1,945	$ 1,533	$ 592
Royalties	**467**	424	183	173	478
Other income	**213**	104	108	100	69
	$11,126	$ 6,044	$ 2,236	$ 1,806	$ 1,139
Royalties paid	**2,314**	1,424	537	365	239
Operating costs	**2,364**	1,113	272	297	188
General and administrative	**745**	611	379	368	307
Interest	**524**	134	327	484	251
Mineral taxes	**73**	51	45	60	104
	$ 6,020	$ 3,333	$ 1,560	$ 1,574	$ 1,089
Income from operations	**$ 5,106**	$ 2,711	$ 676	$ 232	$ 50
Per share	**81¢**	43¢	11¢	5¢	1¢
Depletion/Depreciation and amortization	**1,350**	784	261	396	474
Net deferred tax	**1,055**	480	76	52	—
	$ 2,405	$ 1,264	$ 337	$ 448	$ 474
Net income (loss)	**$ 2,701**	$ 1,447	$ 339	$ (216)	$ (424)
Per share	**43¢**	23¢	5¢	(5¢)	(10¢)
Balance Sheet:					
Working capital (deficit)	**$ 710**	$ 705	$ (985)	$ 354	$ 654
Investments	**16,076**	15,827	15,706	15,706	15,706
Property & equipment	**33,311**	22,630	13,902	7,895	7,504
Other	**441**	601	724	721	588
	$50,538	$39,763	$29,347	$24,676	$24,452
Long Term Debt	**15,143**	8,930	961	8,567	8,803
Deferred Income Taxes	**2,830**	1,204	329	138	—
	$17,973	$10,134	$ 1,290	$ 8,705	$ 8,803
Shareholders' Equity	**$32,565**	$29,629	$28,057	$15,971	$15,649
Shares Outstanding	**6,281**	6,254	6,235	4,349	4,204
Per Share	**$ 5.18**	$ 4.74	$ 4.50	$ 3.67	$ 3.72
Operations:					
Net Reserves — Gas (MMcf.)					
Canada & U.S.	**46,651**	45,600	78,720	100,600	114,200
Net Reserves — Oil (Bbls.)					
Canada & U.S.	**931,000**	866,000	1,075,000	1,229,000	1,128,000
Other Foreign	**16,972,000**	—	—	—	—
Net Daily Production — Gas (Mcf.)					
Canada & U.S.	**10,220**	7,970	4,830	4,200	2,600
Net Daily Production — Oil (Bbls.)					
Canada & U.S.	**69**	77	76	87	308
Spain	**490**	158	—	—	—
Total Oil	**559**	235	76	87	308
Drilling — Gross Holes:					
Gas	**15**	55	40	27	42
Oil	**2**	5	5	3	4
Dry	**10**	14	13	1	12
Total	**27**	74	58	31	58
Growth Expenditures	**$12,260**	$10,713	$ 6,392	$ 2,658	$ 3,212
Net Acreage (in thousands):					
Canada & U.S.	**473**	499	481	601	878
Other Foreign	**1,701**	164	96	164	167

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